

PUBLIC EMPLOYEES RETIREMENT BOARD
Employee Investment Advisory Council
100 North Park
Helena MT 59601
May 13, 2003

Kathy Samson, Council Chair with the following in attendance, called the meeting to order:

Council members:

Kathy Samson, Council Chair

Ron Alles, Local Government Employee Representative

Lorraine Reid, Local Government Employee Representative

Glen Leavitt, University System Representative

Tom Schneider, Labor Organization Representative

Jim Penner, Board of Investments Representative

John McEwen, State Employee Representative

John Northey, State Employee Representative

Pam Fleisner, School District Employee Representative

Jim Christnacht, Retired Public Employee Representative

Tom Bilodeau, Labor Organization Representative

Others in attendance are as follows:

MPERA staff: Mike O'Connor, Keith McCallum, Melanie Symons, Kelly Jenkins, and Roxanne Minnehan.

Also in attendance was Scott Faris of Arnerich Massena & Associates, Inc.

HOUSEKEEPING ITEMS

One typing correction from page 5 of the March 12, 2003 minutes was identified. "Tom Schneider moves" will be changed to "moved". John McEwen made the motion to accept the minutes with the correction; Tom Schneider made the second, the motion passed with none opposed.

The minutes will be available on our website after approval.

The website is: <http://www.discoveringmontana.com/doa/perb/perb.htm>

You may click on the Calendar of Events; choose Employment Investment Advisory Council and the EIAC minutes of your choice.

INVESTMENT POLICY STATEMENT FOR THE 457 PLAN

Discussion on whether to continue to default members who remain in closed funds to the Stable Value Fund or change the policy to map them to similar funds was requested by Tim Jones of Great West and Scott Farris of Arnerich Massena & Associates, Inc.

- Pros for continuing to default to the Stable Value included: The current system is working, EIAC may not want to act as investment advisors, it encourages participants to re-evaluate their allocation, EIAC can not determine the participant's individual motives for investing
- Cons for continuing to default: it may attribute to lack of diversification
- Pros for beginning to map: Most other plans map to a similar investment option
- Cons for beginning to map: EIAC could be held responsible for fund performance
- John Northey moved to maintain the present policy
- Tom Schneider made the second.
- Motion passed with one abstaining, the rationale was to wait for the outcome of the discussion on diversification.

MANAGER SEARCH FOR 401(a) FUNDS

Mr. Faris has searched for new funds in three asset classes as EIAC recommended on March 12, 2003 and PERB approved on March 27, 2003.

A fund to replace the MSIF Trust Mid-Cap Value fund

- Ron Alles moved to recommend the Janus Fund as our Mid Cap Value Option within the 401(a). Tom Bilodeau made the second.
- One abstained; the rationale was that Hotchkis & Wiley had a better net historical performance.
- Motion passed with nine votes in favor and one abstaining.

A fund to replace the SEI Institutional Small Cap Value (A) fund

- Tom Bilodeau moved to recommend the Hotchkis & Wiley Small Cap Value to the PERB pending successful trading agreement negotiations. In the event of unsuccessful negotiations the replacement fund will default to the second choice of the Munder Fund.
- Tom Schneider made the second.
- The motion passed with none opposed.

A Value Style Fund to add to the Global and International Value asset classes

- John McEwen moved to recommend Oakmark International to the PERB
- Tom Schneider made the second
- The motion passed with none opposed.

457 ASSET ALLOCATION FUNDS

EIAC was encouraged to provide some direction in term of either goal or purpose or resolution of what they want to accomplish with respect to Asset Allocation Funds and or knowledge of participants rationale in their diversification. If the 457 Plan is incurring the expense of building custom funds it is important to know why this is being done and that there is a purpose behind it.

- John McEwen moved to close the Moderately Conservative and the Aggressive Profiles Funds in order to move from five to three funds
- Motion was seconded by Jim Penner
- Motion failed with 3 in favor and 5 opposed.
- The rationale was that EIAC should respond to the survey results, make recommendations with more knowledge and information and wait until other decisions are made concerning custom funds. If EIAC makes too many fund switches the participants will lose faith in the process. EIAC needs to examine the potential liability of moving participant's money into other investment options without their permission, as well as the Fiduciary responsibility to the PERB.

457 PARTICIPANT SURVEY

The Current Great West Profile Report indicates that participants are currently not diversifying and are not using the Asset Allocation funds. What is EIAC's role of education in this voluntary and participant directed plan? The participants who pay for all expenses in this plan will also pay for the expense of education. Is EIAC utilizing participant money for what they want as well as to their advantage?

EIAC will recommend the PERB approve development of a survey. The survey will then be developed and sent electronically to the committee for feedback. Volunteers for the Survey Committee are: Jim Penner, Pam Fleisner, John McEwen, John Northey, Jim Christnacht, Melanie Symons, Glen Leavitt, and Tom Schneider.

The purposes of the survey:

- 1) why participants use the plan
- 2) why participants diversify (or do not diversify) within the plan
- 3) what participants think of asset allocation funds
- 4) determine participant education needs/desires
- 5) assess Great-West performance/accessibility

EIAC is finished with fund review for 2003. The next EIAC meeting may not occur for two months. In the future the PERB would like EIAC to tackle Self Directed Brokerage Windows and advice, which is a step beyond education.

